
MERCANTILE STORES COMPANY, INC

ANNUAL REPORT

JANUARY 31st, 1945

CLASSIFIED INFORMATION
EXCLUDED INFORMATION
COMPARISON FILE

970028

MERCANTILE STORES COMPANY, INC.

BOARD OF DIRECTORS

JOHN E. BIERWIRTH

LINDSAY BRADFORD

ASHTON HAWKINS

HAROLD W. JOCKERS

F. G. KINGSLEY

FREDERICK H. MESERVE

GERRISH H. MILLIKEN

MINOT K. MILLIKEN

ROGER MILLIKEN

OFFICERS

F. G. KINGSLEY, *Chairman of the Board*

HAROLD W. JOCKERS, *President*

A. D. CHURBUCK, *Vice-President*

W. A. JONAS, *Vice-President*

FREDERICK H. MESERVE, *Vice-President*

MORGAN A. CASEY, *Treasurer*

ASHTON HAWKINS, *Secretary*

E. F. FLANIGAN, *Controller*

Transfer Agent

BANKERS TRUST COMPANY
New York

Principal Stores Owned by
MERCANTILE STORES COMPANY, INC.

J. BACON & SONS
LOUISVILLE, KY.

THE CASTNER-KNOTT DRY GOODS CO.
NASHVILLE, TENN.

DULUTH GLASS BLOCK STORE COMPANY
DULUTH, MINN.

THE FAIR STORE COMPANY
CINCINNATI, OHIO

HENNESSY COMPANY
BUTTE, MONT.

THE JONES STORE CO.
KANSAS CITY, MO.

THE JOSLIN DRY GOODS COMPANY
DENVER, COLO.

THE LAZARUS STORE, INC.
WILKES-BARRE, PA.

THE LION DRY GOODS COMPANY
TOLEDO, OHIO

THE MacDOUGALL & SOUTHWICK COMPANY
SEATTLE, WASH.

THE McALPIN COMPANY
CINCINNATI, OHIO

MONTGOMERY FAIR CO.
MONTGOMERY, ALA.

THE PEOPLE'S STORE COMPANY
TACOMA, WASH.

ROOT DRY GOODS COMPANY
TERRE HAUTE, IND.

THOMAS C. WATKINS LIMITED
HAMILTON, ONT., CANADA

J. B. WHITE & CO.
AUGUSTA, GA.

MERCANTILE STORES COMPANY, INC.

AND SUBSIDIARIES

100 West 10th Street,
Wilmington, Delaware,
April 9, 1945

To the Stockholders of

Mercantile Stores Company, Inc.:

The consolidated balance sheet of your company and its subsidiaries at January 31, 1945, and statements of consolidated profit and loss and surplus for the year ended that date are submitted herewith.

The net profit before Federal and state income taxes was \$6,633,941.30, compared with \$4,700,874.62 for the preceding year. Net profit after all taxes for the current year was \$1,779,941.30, or \$11.82 per share, compared with \$1,424,114.62, or \$9.37 per share for the year ended January 31, 1944.

Dividends of \$7.00 per share on preferred stock and \$2.50 per share on the common stock, an aggregate of \$398,756.00, were paid during the year. Earned surplus increased from \$2,687,111.17 to \$4,068,296.47.

Net sales, including sales of leased departments, amounted to \$59,668,303.91, an increase of 18.68% over the \$50,277,807.20 reported for the preceding year. The ratio of current assets to current liabilities on January 31, 1945, was 2.9 to 1, compared with 3.3 to 1 last year. Inventories as of January 31, 1945, were \$7,817,193.32, compared with \$6,956,591.05 at the end of the previous year. Inventory turnover increased from 5.60 to 5.94. Large increases in sales during the first two months of 1945 have depleted our inventory to a point where unless we can obtain certain merchandise more readily, the current conditions indicate our future sales will be handicapped. However, war conditions have had a detrimental effect on the quality of merchandise, and while we have been prompt to eliminate from inventory those items which have not found ready acceptance with our customers, there are doubtless a number of items in our stocks which are selling readily now, but which will not sell when better merchandise is available. It will be necessary to make prompt adjustments at that time.

The Company has been engaged in an expansion program during this past year. On October 9, 1944, we purchased the Duluth Glass Block Store, the leading department store in Duluth, Minnesota. To date we have opened fourteen small soft goods stores and the early results have been satisfactory. We have under lease additional locations. In preparation for after the war appliance business, we have leased thirty-two small appliance store locations. This expansion has been financed entirely out of accumulated earnings of the Company.

The bonus plan which was installed in 1941 has proved to be of real and increasing value in the operation of the Company. Under the plan bonuses were paid to 639 people during the current year.

The management believes that accounts receivable are in a satisfactory condition. Reserves for doubtful accounts are adequate. Our term loan of \$1,200,000 was paid. Our policy has been to maintain the physical plants in a good state of repair, and \$697,497.82 was spent during the current year for that purpose. The Company made capital expenditures of \$379,841.71 for new fixtures and building improvements during the current year.

The management desires to express its appreciation of the loyalty and cooperation of the Company's employees.

Respectfully submitted,

F. G. KINGSLEY,
Chairman of the Board

MERCANTILE STORES

(a Delaware Corporation)

AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

ASSETS

CURRENT ASSETS:

Cash in banks and on hand.....		\$ 3,542,395.43
Customers' accounts receivable—		
Regular retail terms	\$2,002,532.11	
Installment terms, including installments maturing after one year	990,440.28	
Equity in installment accounts sold (the uncollected balances of accounts sold amounted to \$172,552.83 at January 31, 1945).....	50,000.00	
	<u>\$3,042,972.39</u>	
Less—Reserves for doubtful accounts (including reserves applicable to accounts sold)	744,065.09	2,298,907.30
Due from suppliers, etc.		260,703.80
Merchandise inventories, priced on the basis of cost or market, whichever is lower, as determined by the retail inventory method.....		<u>7,817,193.32</u>
TOTAL CURRENT ASSETS		<u>\$13,919,199.85</u>

OTHER ASSETS:

Post-war refund of excess profits taxes	\$ 341,008.93	
Deposits as guarantees of performance under leases—		
United States Government securities at cost (quoted market value \$183,100)	178,248.31	
Cash	100,000.00	
Miscellaneous securities	<u>5,171.45</u>	624,428.69

FIXED ASSETS:

Land and buildings owned, buildings on leased ground and leaseholds (property of a net book value of \$237,774.65 is pledged to secure performance under a lease)—at cost, less reserve for depreciation of \$3,060,339.41	\$4,604,191.39	
Store fixtures, etc.—at cost, less reserve for depreciation of \$1,693,370.05	<u>1,694,286.39</u>	6,298,477.78

UNEXPIRED INSURANCE PREMIUMS, PREPAID RENT, ETC.....		<u>409,297.98</u>
		<u><u>\$21,251,404.30</u></u>

NOTES:

- (1) Surplus of \$818,630.94 is restricted by reason of purchase of treasury stock under Section 263 of the Delaware General Corporation Law.
- (2) Certain of the Company's subsidiaries have made applications under Section 263 of the Delaware General Corporation Law for the purpose of deducting excess profits taxes. If favorably acted upon these applications would not be possible to predict the outcome of the applications.

ES COMPANY, INC.

(corporation)

Y COMPANIES

SHEET—JANUARY 31, 1945

LIABILITIES

CURRENT LIABILITIES:

Current maturities of mortgage notes payable to banks	\$	10,000.00
Accounts payable		1,505,241.14
Accrued taxes (other than Federal income), salaries, rent and interest		1,929,227.43
Preferred stock dividend payable February 15, 1945		6,419.00
Reserve for Federal income and excess profits taxes, subject to review by U. S. Treasury Department	\$5,379,019.87	
Less—United States Treasury Tax Savings Notes and accrued interest thereon	4,013,800.00	1,365,219.87
Reserve for conversion of net current assets of Canadian subsidiary		50,000.00

TOTAL CURRENT LIABILITIES..... **\$ 4,866,107.44**

MORTGAGE NOTES PAYABLE TO BANKS, due semiannually until June 30, 1953 when remaining balance becomes due (less current maturities shown above)..... 125,000.00

RESERVE FOR FEDERAL INCOME TAX WHICH MAY BE PAYABLE IN FUTURE YEARS ON GROSS PROFIT DEFERRED FOR FEDERAL INCOME TAX PURPOSES..... 86,000.00

DEFERRED CARRYING CHARGES ON INSTALLMENT ACCOUNTS..... 49,438.50

CAPITAL STOCK AND SURPLUS:

Capital stock—

Preferred stock—7% cumulative, \$100 par value—callable at \$105—Authorized and issued, 10,410 shares (3,668 shares outstanding and 6,742 shares held in treasury).....	\$	1,041,000.00
Common stock—no par value (stated value, \$36.66⅔ per share)—Authorized and issued, 158,238 shares (148,122 shares outstanding and 10,116 shares held in treasury).....		5,802,060.00
Surplus prior to February 1, 1935, per attached statement.....		6,257,633.78
Earned surplus since February 1, 1935, per attached statement.....		4,068,296.47

\$17,168,990.25

Deduct—Treasury stock (3,764 shares of preferred and 10,116 shares of common stock, at par or stated value, and 2,978 shares of preferred stock, at cost)—

Preferred stock, 6,742 shares	\$673,211.89		
Common stock, 10,116 shares	370,920.00	1,044,131.89	16,124,858.36
			\$21,251,404.30

til such stock is sold or canceled.

n 722 of the Internal Revenue Code for adjustment of their earnings bases for com-ld result in a reduction of the current and prior years' Federal taxes on income. It is

MERCANTILE STORES COMPANY, INC.

AND SUBSIDIARY COMPANIES

STATEMENTS OF CONSOLIDATED PROFIT AND LOSS AND SURPLUS

For the Year Ended January 31, 1945

STATEMENT OF CONSOLIDATED PROFIT AND LOSS

Net sales, including sales of leased departments.....		\$59,668,303.91
Cost of goods sold, selling, operating and administrative expenses, including depreciation of \$467,636.80		53,323,122.58
Net operating profit.....		\$ 6,345,181.33
Other income (net):		
Carrying charges on installment accounts, miscellaneous income, etc. (net)		314,024.22
		\$ 6,659,205.55
Deduct—Interest expense		25,264.25
Profit before taxes based on income.....		\$ 6,633,941.30
Provisions for taxes based on income:		
Federal income tax	\$ 935,000.00	
Federal excess profits tax (less credit for debt retirement of \$331,977.00 and post-war refund of \$79,352.00).....	3,702,000.00	
State and Canadian taxes (less post-war refund of \$38,000.00).....	217,000.00	4,854,000.00
Net profit carried to earned surplus		\$ 1,779,941.30

SURPLUS PRIOR TO FEBRUARY 1, 1935

Balance, January 31, 1944.....	\$ 6,257,633.78
(No change occurred in this account during the year ended January 31, 1945)	

EARNED SURPLUS SINCE FEBRUARY 1, 1935

Balance, January 31, 1944.....	\$ 2,687,111.17
Net profit for the year ended January 31, 1945.....	1,779,941.30
	\$ 4,467,052.47
Dividends declared:	
Preferred stock—\$7.00 per share.....	\$ 28,451.00
Common stock—\$2.50 per share	370,305.00
	398,756.00
Balance, January 31, 1945	\$ 4,068,296.47

AUDITORS' REPORT

TO THE BOARD OF DIRECTORS,

MERCANTILE STORES COMPANY, INC.:

We have examined the consolidated balance sheet of Mercantile Stores Company, Inc. (a Delaware corporation) and subsidiary companies as at January 31, 1945, and the statements of consolidated profit and loss and surplus for the year ended that date. In connection therewith we have examined or tested accounting records and other supporting evidence of the Company and certain of its more important subsidiaries, without making a detailed audit of the transactions, and have reviewed the system of internal control and the accounting procedures of such companies, by methods and to the extent we deemed appropriate; except that, in order to avoid possible unfavorable reception on the part of customers, we have, at the request of the management, omitted, as in prior years, the confirmation of accounts receivable by direct communication with customers.

The total assets of the companies and branches whose records we examined represented 73.01% of the total consolidated assets, and the net sales of such companies and branches represented 65.42% of the total consolidated net sales. The accounts of the subsidiary companies whose records we did not examine are included in the consolidated statements on the basis of company reports which were reviewed by us.

In our opinion, subject to the exception stated in the first paragraph hereof with respect to confirmation of receivables, the accompanying consolidated balance sheet and related statements of consolidated profit and loss and surplus present fairly the position of the companies at January 31, 1945, and the results of their operations for the year ended that date, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ARTHUR ANDERSEN & CO.

New York, N. Y.,
April 4, 1945.

MERCANTILE STORES COMPANY, INC.

AND SUBSIDIARY COMPANIES

NET SALES

Seven Year Period Ended January 31, 1945

<i>Year Ended</i>	<i>Amount</i>	<i>% Increase</i>
January 31, 1945.....	\$59,668,304	18.68
January 31, 1944.....	50,277,807	22.11
January 31, 1943.....	41,173,113	18.08
January 31, 1942.....	34,867,853	18.16
January 31, 1941.....	29,509,394	6.84
January 31, 1940.....	27,619,565	8.45
January 31, 1939.....	25,467,539	10.00*

COMPARATIVE PROFITS

Seven Year Period Ended January 31, 1945

<i>Year Ended</i>	<i>Profit Before Income Taxes</i>	<i>Income Taxes</i>	<i>Net Profit</i>
January 31, 1945.....	\$6,633,941	\$4,854,000	\$1,779,941
January 31, 1944.....	4,700,875	3,276,760	1,424,115
January 31, 1943.....	3,340,264	2,118,645	1,221,619
January 31, 1942.....	1,912,941	812,164	1,100,776
January 31, 1941.....	939,991	278,547	661,443
January 31, 1940.....	274,646	72,059	202,586
January 31, 1939.....	486,264*	3,850	490,114*

NET PROFIT PER SHARE OF COMMON STOCK

Seven Year Period Ended January 31, 1945

<i>Year Ended</i>	<i>Net Profit per Share of Common Stock</i>
January 31, 1945.....	\$11.82
January 31, 1944.....	9.37
January 31, 1943.....	8.22
January 31, 1942.....	7.30
January 31, 1941.....	4.28
January 31, 1940.....	1.11
January 31, 1939.....	3.63*

* Italics indicate loss or deficit.

MERCANTILE STORES COMPANY, INC.

AND SUBSIDIARY COMPANIES

DIVIDENDS PAID AND EARNED SURPLUS

Seven Year Period Ended January 31, 1945

<i>Year Ended</i>	<i>Dividends</i>		<i>Earned Surplus (End of Year)</i>
	<i>Preferred</i>	<i>Common</i>	
January 31, 1945.....	\$28,451	\$370,305	\$4,068,296
January 31, 1944.....	36,176	368,930	2,687,111
January 31, 1943.....	37,133	361,255	1,668,102
January 31, 1942.....	40,187	290,444	844,871
January 31, 1941.....	41,732	289,612	74,726
January 31, 1940.....	42,504		255,372*
January 31, 1939.....	46,907		415,455*

* Italics indicate loss or deficit.

BOOK VALUE PER SHARE OF COMMON STOCK

Seven Year Period Ended January 31, 1945

<i>Year Ended</i>	<i>Book Value per Share of Common Stock</i>
January 31, 1945.....	\$106.26
January 31, 1944.....	96.94
January 31, 1943.....	92.01
January 31, 1942.....	85.80
January 31, 1941.....	80.71
January 31, 1940.....	78.54
January 31, 1939.....	75.88

NET CURRENT ASSETS (WORKING CAPITAL) PER COMMON SHARE

Seven Year Period Ended January 31, 1945

<i>Year Ended</i>	<i>Net Current Assets (Working Capital)</i>	<i>Net Current Assets per Share of Common Stock</i>
January 31, 1945.....	\$9,053,092	\$58.52
January 31, 1944.....	9,015,363	57.20
January 31, 1943.....	8,442,467	54.80
January 31, 1942.....	8,254,926	52.70
January 31, 1941.....	6,158,589	38.33
January 31, 1940.....	5,861,791	36.21
January 31, 1939.....	5,891,555	35.06

MERCANTILE STORES COMPANY

1937-1938

DIVIDENDS PAID AND EARNINGS

Year	Dividend	Earnings
1937	1.00	1.00
1936	1.00	1.00
1935	1.00	1.00
1934	1.00	1.00
1933	1.00	1.00
1932	1.00	1.00
1931	1.00	1.00
1930	1.00	1.00
1929	1.00	1.00
1928	1.00	1.00
1927	1.00	1.00
1926	1.00	1.00
1925	1.00	1.00
1924	1.00	1.00
1923	1.00	1.00
1922	1.00	1.00
1921	1.00	1.00
1920	1.00	1.00
1919	1.00	1.00
1918	1.00	1.00
1917	1.00	1.00
1916	1.00	1.00
1915	1.00	1.00
1914	1.00	1.00
1913	1.00	1.00
1912	1.00	1.00
1911	1.00	1.00
1910	1.00	1.00
1909	1.00	1.00
1908	1.00	1.00
1907	1.00	1.00
1906	1.00	1.00
1905	1.00	1.00
1904	1.00	1.00
1903	1.00	1.00
1902	1.00	1.00
1901	1.00	1.00
1900	1.00	1.00

STATE OF NEW YORK

IN SENATE, January 27, 1938

Year	Dividend	Earnings
1937	1.00	1.00
1936	1.00	1.00
1935	1.00	1.00
1934	1.00	1.00
1933	1.00	1.00
1932	1.00	1.00
1931	1.00	1.00
1930	1.00	1.00
1929	1.00	1.00
1928	1.00	1.00
1927	1.00	1.00
1926	1.00	1.00
1925	1.00	1.00
1924	1.00	1.00
1923	1.00	1.00
1922	1.00	1.00
1921	1.00	1.00
1920	1.00	1.00
1919	1.00	1.00
1918	1.00	1.00
1917	1.00	1.00
1916	1.00	1.00
1915	1.00	1.00
1914	1.00	1.00
1913	1.00	1.00
1912	1.00	1.00
1911	1.00	1.00
1910	1.00	1.00
1909	1.00	1.00
1908	1.00	1.00
1907	1.00	1.00
1906	1.00	1.00
1905	1.00	1.00
1904	1.00	1.00
1903	1.00	1.00
1902	1.00	1.00
1901	1.00	1.00
1900	1.00	1.00

NET CURRENT ASSETS (WORKING CAPITAL)

PER COMMON SHARE

IN SENATE, January 27, 1938

Year	Dividend	Earnings
1937	1.00	1.00
1936	1.00	1.00
1935	1.00	1.00
1934	1.00	1.00
1933	1.00	1.00
1932	1.00	1.00
1931	1.00	1.00
1930	1.00	1.00
1929	1.00	1.00
1928	1.00	1.00
1927	1.00	1.00
1926	1.00	1.00
1925	1.00	1.00
1924	1.00	1.00
1923	1.00	1.00
1922	1.00	1.00
1921	1.00	1.00
1920	1.00	1.00
1919	1.00	1.00
1918	1.00	1.00
1917	1.00	1.00
1916	1.00	1.00
1915	1.00	1.00
1914	1.00	1.00
1913	1.00	1.00
1912	1.00	1.00
1911	1.00	1.00
1910	1.00	1.00
1909	1.00	1.00
1908	1.00	1.00
1907	1.00	1.00
1906	1.00	1.00
1905	1.00	1.00
1904	1.00	1.00
1903	1.00	1.00
1902	1.00	1.00
1901	1.00	1.00
1900	1.00	1.00